

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Charlevoix County Road Commission	County Charlevoix
Fiscal Year End 12/31/06	Opinion Date 10/05/07	Date Audit Report Submitted to State 10/12/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

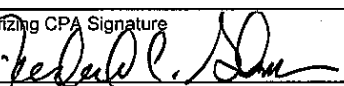
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	No comments or recommendations necessary.	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Gardner, Provenzano, Schauman & Thomas, P.C.		Telephone Number 989-790-3900	
Street Address 4855 State Street		City Saginaw	State MI
Zip 48603			
Authorizing CPA Signature 	Printed Name Frederick C. Gardner	License Number 9577	

**CHARLEVOIX COUNTY ROAD COMMISSION
FINANCIAL STATEMENTS**

DECEMBER 31, 2006

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CHARLEVOIX COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Doug Way	Chairman
Wayne Saunders	Vice-Chairman
Keith Ogden	Member
Patrick Harmon	Manager
Shelley Kondrat	Clerk
James Vanek	Staff Engineer



Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

INDEPENDENT AUDITOR'S REPORT

October 5, 2007

Honorable Chairman
Members of the County Road Commission
County of Charlevoix, Michigan

We have audited the accompanying financial statements of the governmental activities of the Charlevoix County Road Commission, a component unit of Charlevoix County, as of and for the year ended December 31, 2006, which comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Charlevoix County Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Charlevoix County Road Commission as of December 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Honorable Chairman
Members of the County Road Commission
County of Charlevoix, Michigan
Page Two
October 5, 2007

In accordance with Government Auditing Standards, we have also issued a report dated October 5, 2007 on our consideration of the Charlevoix County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The additional supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements of Charlevoix County Road Commission and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Bauder, Bruening, Scheuerman & Thomas

Certified Public Accountants

CHARLEVOIX COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Introduction

Charlevoix County Road Commission (CCRC) is a single purpose government providing road maintenance and preservation/construction on certified county roads in Charlevoix County, Michigan.

In 2003, the Governmental Accounting Standards Board Statement Number 34 (GASB 34) changed the Road Commission's financial statements from modified accrual to full accrual accounting. Government financial statements are based on the modified accrual accounting method, while the term government-wide statements refer to the newly required full accrual method. Full accrual requirements recognize roads, bridges, signals, etc., as capitalized assets; whereas modified accrual does not. Single purpose governments are allowed to show both modified accrual and full accrual statements on a single page.

CCRC audited financial activities are presented herein. These statements include the following:

- Statement of Net Assets and Governmental Fund Balance Sheet,
- Reconciliation of Governmental Fund Balance to Net Assets of Governmental Activities,
- Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance, and
- Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund balance of Governmental Fund to the Statement of Activities for the Year Ended December 31, 2006.

CHARLEVOIX COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Condensed Financial Statements

Following are CCRC condensed government-wide financial statements. The reports include current and prior year balances for comparison.

Condensed Statement of Net Assets

Assets	2006	2005
General fund	\$ 2,062,884	\$ 1,990,959
Capital assets	19,050,942	18,200,885
Total Assets	<u>\$ 21,113,826</u>	<u>\$ 20,191,844</u>
Liabilities		
General fund liabilities	\$ 200,644	\$ 166,039
Liabilities associated with long-term debt	41,136	41,807
Total Liabilities	<u>241,780</u>	<u>207,846</u>
Net Assets		
General fund net assets	1,821,104	1,783,113
Invested in capital assets	19,050,942	18,200,885
Total Net Assets	<u>\$ 20,872,046</u>	<u>\$ 19,983,998</u>

Condensed Statement of Activities

Revenue		
Intergovernmental	\$ 4,857,356	\$ 4,961,783
Other contributions and service charges	395,998	678,182
Other	191,991	89,412
Total Revenue	<u>5,445,345</u>	<u>5,729,377</u>
Expenses		
Primary maintenance	766,825	786,533
Local maintenance	1,555,784	1,388,633
Trunkline maintenance	393,635	488,957
Administrative	397,393	410,898
Depreciation	1,443,660	1,319,075
Total Expenses	<u>4,557,297</u>	<u>4,394,096</u>
Change in Net Assets	<u>\$ 888,048</u>	<u>\$ 1,335,281</u>

Additional Comments

During 2006, net assets increased by \$888,048 or 4%. As in 2005, the increase in net assets reflects a greater investment in new capital assets, i.e. road improvements and equipment purchases, than the expenses associated with capital assets such as depreciation.

CHARLEVOIX COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Additional Comments (continued)

Compared to the 2005 \$7,225 fund balance decrease, 2006 ended with a \$37,320 or 2% increase of beginning fund balance. Management is confident the \$1,862,240 fund balance provides sufficient working capital to support future CCRC operations.

Budget

CCRC's budget is prepared in accordance with state law using the modified accrual method.

Original Budget Versus Amended Budget

The 2006 beginning budget was adopted in December 2005. CCRC periodically reviews and amends the budget as information becomes available or management's plans change.

Total budgeted revenue decreased by \$59,542 when compared to the original budget. A decrease in the budgeted MTF revenue totaling \$439,779 was partially offset by an increase in the budgeted amount for township contributions of \$367,795.

Total budgeted expenditures decreased by \$127,757 when compared to the original budget. A decrease in budgeted equipment expenditures (\$254,625) and administrative expenditures (\$109,045) totaling \$363,670 was partially offset by budgeted increase in capital outlay of \$302,174.

Amended Budget Versus Actual

Total revenue received was more than the final amended budgeted revenue by \$79,237. The difference was due to actual amounts received for township contributions and state highway maintenance reimbursements exceeding final anticipated budget amounts.

Total actual expenditures exceeded the final amended budget amounts by \$50,782. The variance was due to greater than anticipated administrative and equipment expenditures totaling \$313,159. The variance was partially offset by lower than anticipated preservation expenditures totaling \$244,397.

Additional budgetary comparison information can be found in the required supplementary information.

CHARLEVOIX COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Capital Assets and Long Term Debt

CCRC capital assets, including infrastructure (roads, bridges and signals) are valued, for full accrual accounting purposes, net of accumulated depreciation, at \$19,050,942.

Land and improvements	\$ 2,153,943
Buildings and improvements	1,556,671
Road equipment	5,029,702
Other equipment	223,786
Infrastructure and improvements	<u>23,866,099</u>
Total Capital Assets	32,830,201
Accumulated Depreciation	<u>(13,779,259)</u>
Net Capital Assets	<u><u>\$ 19,050,942</u></u>

Additional capital assets information is located in the financial statements, Note 4.

The Charlevoix County Road Commission has no long term debt other than compensated absences in the amount of \$41,136.

Other

Management is not currently aware of any known facts, decisions, or conditions expected to have a significant effect on the CCRC future financial condition.

Contacting the Road Commission's Financial Management

This financial report provides the motoring public, citizens and other interested parties with the Road Commission's general financial overview and accountability for money it receives. If you require further financial information, please contact the Charlevoix County Road Commission administrative office at:

1251 Boyne Avenue
P.O. Box 39
Boyne City, MI 49712-0039
(231) 582-7330

CHARLEVOIX COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2006

	General Fund	Adjustments	Statement of Net Assets
ASSETS			
Cash	\$ 66,186	\$ -	\$ 66,186
Interest bearing accounts	649,736	-	649,736
Accounts Receivable			
State Transportation Department	548,138	-	548,138
Other	448	-	448
Inventories			
Road Materials	748,912	-	748,912
Equipment, materials, and parts	49,464	-	49,464
Capital Assets			
Land and land improvements	-	2,153,943	2,153,943
Other capital assets, net of accumulated depreciation	-	16,896,999	16,896,999
Total Assets	<u>\$ 2,062,884</u>	<u>\$ 19,050,942</u>	<u>\$ 21,113,826</u>
LIABILITIES			
Accounts payable	\$ 31,517	\$ -	\$ 31,517
Accrued liabilities	23,677	-	23,677
Advances	145,447	-	145,447
Deferred revenue	3	-	3
Long-term liabilities	-	41,136	41,136
Total Liabilities	<u>200,644</u>	<u>41,136</u>	<u>241,780</u>
FUND BALANCE/NET ASSETS			
Fund Balances:			
Reserved for inventories	49,464	(49,464)	-
Unreserved			
Undesignated	1,812,776	(1,812,776)	-
Total Fund Balance	<u>1,862,240</u>	<u>(1,862,240)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 2,062,884</u>		
Net Assets			
Invested in capital assets		19,050,942	19,050,942
Restricted for primary		1,340,858	1,340,858
Unrestricted		480,246	480,246
Total Net Assets		<u>\$ 20,872,046</u>	<u>\$ 20,872,046</u>

The accompanying notes are an integral part of these financial statements.

CHARLEVOIX COUNTY ROAD COMMISSION
RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006

Total governmental fund balance	\$ 1,862,240
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	19,050,942
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(41,136)
Net Assets of Governmental Activities	<u>\$ 20,872,046</u>

The accompanying notes are an integral part of these financial statements.

CHARLEVOIX COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2006

	General Fund	Adjustments	Statement of Activities
Revenue			
Transportation fund	\$ 3,131,938	\$ -	\$ 3,131,938
Economic development fund	45,231	-	45,231
Federal grants	5,875	-	5,875
City and Township contributions	1,674,312	-	1,674,312
Other contributions and service charges	395,998	-	395,998
Other revenues	191,991	-	191,991
Total Revenue	<u>5,445,345</u>	<u>-</u>	<u>5,445,345</u>
Expenditures/Expenses			
Construction - capacity improvements	19,981	(19,981)	-
Primary preservation - structural improvements	772,874	(772,874)	-
Local preservation - structural improvements	678,550	(678,550)	-
Primary maintenance	824,246	(57,421)	766,825
Local maintenance	1,677,800	(122,016)	1,555,784
Trunkline maintenance	393,635	-	393,635
Administrative	398,064	(671)	397,393
Net equipment expense	202,316	(202,316)	-
Net capital outlay			
Capital outlay	832,174	(832,174)	-
Depreciation	(391,615)	391,615	-
Depreciation	-	1,443,660	1,443,660
Total Expenditures/Expenses	<u>5,408,025</u>	<u>(850,728)</u>	<u>4,557,297</u>
Excess of Revenue Over (Under) Expenditures	37,320	(37,320)	-
Change in Net Assets	-	888,048	888,048
Fund Balance/Net Assets - Beginning of Year	<u>1,824,920</u>	<u>16,816,572</u>	<u>19,983,998</u>
Fund Balance/Net Assets - End of Year	<u>\$ 1,862,240</u>	<u>\$ 17,667,300</u>	<u>\$ 20,872,046</u>

The accompanying notes are an integral part of these financial statements.

CHARLEVOIX COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

Net change in fund balance	\$ 37,320
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Amounts reported for governmental activities are
different because:

Governmental fund reports capital outlays as expenditures. However,
in the statement of activities, the cost of these assets is depreciated
over their estimated useful lives.

Expenditures for capital assets	2,293,717
Current year depreciation	(1,443,660)

In the Statement of Activities, liabilities at the end of the period for compensated absences are adjusted to their current balance, whereas in governmental funds, an expenditure is reported when paid.	671
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Change in Net Assets of Governmental Activities	<u>\$ 888,048</u>
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The accompanying notes are an integral part of these financial statements.

CHARLEVOIX COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies

The Charlevoix County Road Commission's financial statements are prepared in accordance with United States generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with GASB pronouncements. The more significant accounting policies established in GAAP and used by the commission are discussed below.

In June 1999, the GASB unanimously approved Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments". Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the commission's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for the commission's activities, including infrastructure (roads, bridges, signals, etc.).

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

Reporting Entity

The commission is governed by a three-member board of county road commissioners appointed by the Charlevoix County Board of Commissioners. The commission is a component unit of the Charlevoix County and its financial statements are an integral part of the comprehensive annual financial report of the Charlevoix County.

CHARLEVOIX COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

Based upon GASB Statement 14, which establishes criteria for determining the reporting entity, these financial statements present the Charlevoix County Road Commission, a discretely presented component unit of Charlevoix County, and include the commission's general operations fund.

Basic Financial Statements -- Government -Wide Statements

The statement of net assets and the statement of activities display information about the commission as a whole. The purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Currently, all commission activity is considered governmental.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach is different from the manner in which the governmental fund financial statements are prepared. Therefore, a reconciliation is included to identify the relationship between the government-wide statements and the statements for the governmental fund.

The government-wide statement of activities presents a comparison between program expenses and program revenues. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program expenses and revenues identifies the extent to which each program is self-financing or draws from the resources of the commission.

This government-wide approach is focused more on the sustainability of the commission as an entity and the change in the commission's net assets from the current year's activities.

CHARLEVOIX COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

Basic Financial Statements – Fund Financial Statements

The accounts of the commission are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The commission's operations are accounted for in one fund, the general operations fund.

Fund financial statements generally report detailed information about the governmental entity. The focus of the governmental financial statements is on major funds rather than reporting all funds by type. The commission has only one major fund and no non-major funds.

The governmental fund is accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. According to this basis, revenues are recognized when they become measurable and available. Available is defined as being received within two months of year end. Expenditures are recognized in the period in which the fund liability is incurred, if measurable.

Cash and Cash Equivalents

The commission's cash and cash equivalents are considered to be demand deposits and short-term investments with a maturity date of three months or less when acquired.

Inventories

Inventories, which consist of road materials and equipment supplies, are valued at cost (first-in/first-out and average cost). Costs are recorded as assets when purchased, and charged to expense when used.

CHARLEVOIX COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

Capital Assets and Depreciation

Capital assets purchased or acquired are reported at historic cost. Contributed assets are reported at fair market value when received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation is computed on the sum-of-the-year's-digits methods for road equipment and straight-line method for all other capital assets over the following estimated useful lives:

	<u>Years</u>
Buildings	25 – 50
Road Equipment	5 – 8
Other Equipment	4 – 20
Infrastructure	5 – 50

GASB 34 requires the commission to report and depreciate infrastructure assets in its government-wide statements. Infrastructure assets include roads, bridges, traffic signals, etc.

Budgets and Budgetary Accounting

The commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. A budget, (prepared on the modified accrual basis of accounting), is submitted to the Charlevoix County Board of Road Commissioners prior to January 1 of each year. The budget includes proposed expenditures and a means of financing them.
2. The Board of Road Commissioners' approved budget is then submitted to the Charlevoix County Board of Commissioners.
3. The budget is adopted on a basis consistent with generally accepted accounting principles and revised as deemed necessary during the year.

CHARLEVOIX COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (continued)

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended December 31, 2006, certain unfavorable variances occurred between budgeted and actual expenditures as listed below:

	Amended Budget	Actual	Actual Over Budget
Trunkline maintenance	\$ 380,000	\$ 393,635	\$ 13,635
Administrative (net)	\$ 300,221	\$ 398,064	\$ 97,843
Equipment expense (net)	\$ (13,000)	\$ 202,316	\$ 215,316

NOTE 2--Cash, Cash Equivalents and Investments

The county road commission is legally authorized to deposit and invest in the following:

1. In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
2. In certificates of deposit, saving accounts, deposit accounts, or depository receipts of a bank which is a member of the FDIC, a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
3. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the purchase date.
4. In United States government or federal agency obligation repurchase agreements.
5. In banker's acceptance of United States banks.
6. In obligations of the state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

State statutes require that certificates of deposit, savings accounts, deposit accounts and depository receipts be made with banks having a place of business in the State of Michigan.

CHARLEVOIX COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 2--Cash, Cash Equivalents and Investments (continued)

At year-end, the carrying amount of the commission's deposits was \$715,922 and the bank balance was \$856,266. Of the bank balance \$100,000 was covered by federal depository insurance and \$756,266 was uninsured and uncollateralized.

The commission's deposits are categorized below according to level of credit risk:

- Category 1 represents the county road commission's insured or collateralized deposits with securities held by the commission or by its agent in the commission's name.
- Category 2 represents the county road commission's collateralized deposits with securities held by the pledging financial institution's trust department or agent in the county road commission's name.
- Category 3 represents the county road commission's uncollateralized deposits including any bank balances that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the county road commission's name.

	Category			Bank Balance	Carrying Amount
	1	2	3		
Demand deposits	\$ -	\$ -	\$ 65,986	\$ 206,530	\$ 65,986
Time deposits	-	-	649,736	649,736	649,736
Cash on hand	-	-	200	-	200
Totals	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 715,922</u>	<u>\$ 856,266</u>	<u>\$ 715,922</u>

It is the policy of the Commission to deposit excess monies with the Charlevoix County Treasurer; investments are made at her discretion.

NOTE 3--Pension Plan

Plan Description

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board, Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the

CHARLEVOIX COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 3--Pension Plan (continued)

Plan Description (continued)

participants in MERS. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing the Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate; the current rate is 14.55% of annual covered payroll. Employees are currently not required to contribute to the plan. The contribution requirements of the Road Commission are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Road Commission depending on the MERS contribution program adopted by the Road Commission.

Annual Pension Cost

For the year ended December 31, 2006, the Road Commission's annual pension cost of \$183,108 for MERS was equal to the Road Commission's minimum required contributions. The Road Commission's actual contribution for 2006 was \$179,718. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increase of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit and (d) the assumption that benefits will increase 2.5% per year

CHARLEVOIX COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 3--Pension Plan (continued)

Annual Pension Cost (continued)

after retirement for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect market value. The Road Commission's actuarial accrued liability is \$1,390,844 as of December 31, 2005, the date of the last actuary report.

Three-year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12-31-04	\$ 129,708	100%	\$ -
12-31-05	\$ 135,328	100%	\$ -
12-31-06	\$ 183,108	98%	\$ 3,390

The Road Commission's actual contribution amount was computed under the Accelerated Funding Credits program adopted by MERS in 1984. The program allows municipalities with funded percentages of 110% or greater to make no contributions.

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets [a]</u>	<u>Actuarial Accrued Liability Entry Age [b]</u>	<u>Unfunded AAL (UAAL) [b-a]</u>	<u>Funded Ratio [a/b]</u>	<u>Covered Payroll [c]</u>	<u>UAAL as a % of Covered Payroll [b-a]/[c]</u>
12-31-03	\$ 4,225,977	\$ 4,907,293	\$ 681,316	86%	\$ 1,308,565	52%
12-31-04	\$ 4,355,228	\$ 5,590,766	\$ 1,235,538	78%	\$ 1,292,199	96%
12-31-05	\$ 4,432,711	\$ 5,823,555	\$ 1,390,844	76%	\$ 1,289,471	107%

CHARLEVOIX COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 4--Capital Assets and Depreciation

A summary of the changes in capital assets is as follows:

	Balance 12-31-2005	Additions	Retirements	Balance 12-31-2006
Capital Assets Not Being Depreciated				
Land and improvements	\$ 82,574		\$ -	\$ 82,574
Land and improvements, infrastructure	2,025,844	45,525	-	2,071,369
Total Land and improvements	<u>2,108,418</u>	<u>45,525</u>	<u>-</u>	<u>2,153,943</u>
Other Capital Assets				
Buildings and improvements	1,556,671	-	-	1,556,671
Road equipment	4,465,039	831,124	266,461	5,029,702
Other equipment	222,736	1,050	-	223,786
Infrastructure and improvements	22,440,218	1,425,881	-	23,866,099
Total Other Capital Assets	<u>28,684,664</u>	<u>2,258,055</u>	<u>266,461</u>	<u>30,676,258</u>
Total Capital Assets	<u>30,793,082</u>	<u>2,303,580</u>	<u>266,461</u>	<u>32,830,201</u>
Accumulated Depreciation				
Buildings and improvements	506,551	36,916	-	543,467
Road equipment	3,384,569	348,273	256,597	3,476,245
Other equipment	182,649	6,426	-	189,075
Infrastructure and improvements	8,518,428	1,052,044	-	9,570,472
Total Accumulated Depreciation	<u>12,592,197</u>	<u>1,443,659</u>	<u>256,597</u>	<u>13,779,259</u>
Total Net Capital Assets	<u>\$ 18,200,885</u>	<u>\$ 859,921</u>	<u>\$ 9,864</u>	<u>\$ 19,050,942</u>

NOTE 5--Long-Term Liabilities

Compensated Absences - Employees accumulate 8 hours of sick leave per month. A maximum of 520 hours can be accumulated. Upon termination, the employee receives no payment for the accumulated sick leave.

Employees can carry over up to 5 days of vacation per year. Accumulated vacation is fully paid to the employee upon termination of employment. Accumulated vacation amounted to \$41,136 at the end of 2006.

CHARLEVOIX COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 6--Risk Management

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2006, the Road Commission participated in the Michigan County Road Commission Self Insurance Pool (SIP), a public entity risk pool currently operating as a common risk management program for road commissions in the State of Michigan. The Road Commission pays an annual premium to SIP for its general insurance coverage. The SIP is self-sustaining through member premiums.

During 2006 the Road Commission also participated in the County Road Association Self Insurance Fund (SIF) for its workers' compensation benefits. The SIF is also a common risk management program for road commissions in the State of Michigan and is self-sustaining through premiums.

In the event of unusually high claims, both the SIP and the SIF have the authority to bill the member road commissions retroactively. The Road Commission continues to carry commercial insurance for other risks of loss, including employee health and accident and life insurance.

NOTE 7--Contingency

The Commission has received significant financial assistance from state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims could have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at December 31, 2006.

CHARLEVOIX COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 7—Contingency (continued)

Federal financial awards received under the planning and construction program in the amount of \$5,875 are administered by the State of Michigan. The Road Commission has no responsibility regarding fiscal or compliance controls over such assistance.

REQUIRED SUPPLEMENTAL INFORMATION

CHARLEVOIX COUNTY ROAD COMMISSION
BUDGETARY COMPARISON SCHEDULE
GENERAL OPERATIONS FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Budget	Final Budget	Actual	Actual Vs. Final Budget Variance
Revenue				
Transportation fund	\$ 3,605,000	\$ 3,165,221	\$ 3,131,938	\$ (33,283)
Economic development fund	-	-	45,231	45,231
Federal and State grants	-	5,875	5,875	-
City and Township contributions	1,250,000	1,617,795	1,674,312	56,517
Other contributions and service charges	400,000	380,000	395,998	15,998
Other revenues	170,650	197,217	191,991	(5,226)
Total Revenue	<u>5,425,650</u>	<u>5,366,108</u>	<u>5,445,345</u>	<u>79,237</u>
Expenditures				
Heavy maintenance	1,180,124	1,672,848	1,471,405	201,443
Regular maintenance	3,083,985	2,545,000	2,502,046	42,954
Trunkline maintenance	400,000	380,000	393,635	(13,635)
Administrative (net)	409,266	300,221	398,064	(97,843)
Equipment expense (net)	241,625	(13,000)	202,316	(215,316)
Capital outlay (net)	170,000	472,174	440,559	31,615
Total Expenditures	<u>5,485,000</u>	<u>5,357,243</u>	<u>5,408,025</u>	<u>(50,782)</u>
Excess of Revenues Over (Under) Expenditures	(59,350)	8,865	37,320	28,455
Fund Balance, Beginning of Year	1,824,920	1,824,920	1,824,920	-
Fund Balance, End of Year	<u>\$ 1,765,570</u>	<u>\$ 1,833,785</u>	<u>\$ 1,862,240</u>	<u>\$ 28,455</u>

ADDITIONAL SUPPLEMENTAL INFORMATION

CHARLEVOIX COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE -- SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	Appropriated			
	Primary Roads	Local Roads	County Road Fund	Total
Revenues				
Federal	\$ 5,875	\$ -	\$ -	\$ 5,875
Transportation Fund	1,925,394	1,061,554	-	2,986,948
Engineering	6,500	3,500	-	10,000
Snow removal allocation	87,744	47,247	-	134,991
Total Transportation	2,019,638	1,112,301	-	3,131,939
Economic Development Fund	-	45,231	-	45,231
Township contributions	671,439	702,873	300,000	1,674,312
Other				
Trunk line maintenance	-	-	393,635	393,635
Trunk line non- maintenance	-	-	-	-
Salvage sales	-	-	2,363	2,363
Interest earned	34,097	-	10,184	44,281
Other	38,242	-	109,467	147,709
Total Other	72,339	-	515,649	587,988
Total Revenues	2,769,291	1,860,405	815,649	5,445,345
Expenditures				
Construction/ Capacity Improvement	-	19,981	-	19,981
Preservation - Structural Improvements	772,874	678,550	-	1,451,424
Maintenance				
Roads	462,993	1,196,586	-	1,659,579
Winter maintenance	323,470	454,936	-	778,406
Traffic control	37,783	26,277	-	64,060
Total Maintenance	824,246	1,677,799	-	2,502,045
Other				
Trunk line maintenance	-	-	393,635	393,635
Administrative expense	159,226	238,839	-	398,065
Equipment expense	514,828	890,284	55,677	1,460,789
Less: equipment rental	(443,525)	(766,982)	(47,966)	(1,258,473)
Capital outlay	832,174	-	-	832,174
Less: depreciation	(391,615)	-	-	(391,615)
Total Other	671,088	362,141	401,346	1,434,575
Total Expenditures	2,268,208	2,738,471	401,346	5,408,025
Excess (Deficiency) of Revenues Over (Under) Expenditures	501,083	(878,066)	414,303	37,320
Other Financing Sources (Uses)				
Optional transfers	(570,000)	570,000	-	-
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(68,917)	(308,066)	414,303	37,320
Fund Balances, Beginning	1,409,775	-	415,145	1,824,920
Interfund Adjustment	-	308,066	(308,066)	-
Fund Balances, Ending	\$ 1,340,858	\$ -	\$ 521,382	\$ 1,862,240

See independent auditor's report.



**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

October 5, 2007

Members of the Board
of County Road Commissioners
of Charlevoix County
Charlevoix, Michigan

We have audited the financial statements of the governmental activities of the Charlevoix County Road Commission, a component unit of Charlevoix County, as of and for the year ended December 31, 2006, which collectively comprise the Charlevoix County Road Commission's basic financial statements, and have issued our report thereon dated October 5, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Charlevoix County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charlevoix County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Charlevoix County Road Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Charlevoix County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Charlevoix County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by Charlevoix County Road Commission's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

We noted an absence of appropriate segregation of duties consistent with appropriate control objectives. We also noted that bank reconciliations of the operating cash account are not being completed on a timely basis.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Charlevoix County Road Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Charlevoix County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Members of the Board
of County Road Commissioners
of Charlevoix County
Page Three
October 5, 2007

This report is intended for the information of management and the Board of County Road Commissioners. However, this report is a matter of public record and its distribution is not limited.

Saunders, Proulx, Schuman & Thomas

Certified Public Accountants